

**MINUTES
of the
SECOND MEETING
of the
STATE PERMANENT FUND TASK FORCE**

**July 8-9, 2004
Santa Fe**

The second meeting of the State Permanent Fund Task Force was called to order by Senator Joseph J. Carraro, chair, at 10:15 a.m. on July 8, 2004 in Room 321 of the State Capitol in Santa Fe.

PRESENT

Sen. Joseph J. Carraro, Chair
Rep. Luciano "Lucky" Varela, Vice Chair
Frank Foy
Bob Gish
Bob Jacksha
Rep. Larry A. Larranaga
Rep. Henry "Kiki" Saavedra
Scott Stovall, (July 8)
Mark Valdes (July 9)

ABSENT

Gary Bland
Sen. Joseph A. Fidel
Deborah Gallegos
Sen. Timothy Z. Jennings
James Jimenez

Staff

Douglas Williams
Larry Matlock

Guests

The guest list is in the meeting file.

Thursday, July 8

The minutes of the May 13-14, 2004 meeting were approved by unanimous consent. A letter was received from Secretary of Finance and Administration James Jimenez designating Scott Stovall as the Department of Finance and Administration (DFA) representative on July 8 and Mark Valdes as the DFA representative on July 9.

A motion was made to request that the Legislative Council replace Senators Jennings and Fidel with two other senate members. The motion was adopted unanimously.

The task force requested staff to prepare a flow chart that depicts the flow of funds into and out of the permanent funds.

Janet Peacock, Legislative Council Service (LCS), reviewed the history of severance tax revenues and the issuance of severance tax bonds (see handout).

- Annually, 4.7 percent of the average five-year balance in the Severance Tax Permanent Fund (STPF) is transferred to the general fund.
- Sponge bonds are issued by the State Board of Finance, purchased by the state treasurer and redeemed by the board one day later. The board pays one day of interest at the rate of one percent.
- Supplemental severance tax bonds are subordinate to severance tax bonds and pay higher interest to the bondholder.

Ms. Peacock reviewed the background of public school capital outlay, the *Zuni* lawsuit and the creation of the Public School Capital Outlay Council (PSCOC) and Public School Facilities Authority (see handout). A decision was made that the state would not appeal the *Zuni* lawsuit because the likely outcome would be a consent decree. Accordingly, the legislature delegated capital outlay responsibility to the PSCOC. At present, up to 95 percent of prior year severance tax revenue may be used for a combination of severance, supplemental severance and short-term supplemental severance tax bonds to finance capital outlay.

Dominic Garcia of the Public Employees Retirement Association (PERA) distributed a chart showing STPF performance (see handout).

Bob Jacksha reviewed the State Investment Council (SIC) hedge fund investment policy (see handout).

- SIC has statutory authority to use up to 10 percent of the STPF, but not the Land Grant Permanent Fund (LGPF), for investment in hedge funds.
- Neither PERA or the Educational Retirement Board (ERB) have the authority to invest in hedge funds.
- Hedge funds are like an insurance policy in protecting from market ups and downs.
- Hedge funds generally specialize in one area, i.e., stocks or bonds or commodities.
- SIC cannot invest in commodity hedge funds.

The SIC has two private equity funds: private equity and national equity. The private equity fund is targeted at the STPF only and may invest in New Mexico real estate; the national equity fund is almost like a mutual fund and the LGPF may participate.

Steve Jerge of the SIC reviewed the normal process for issuing a request for proposal (RFP) (see handout).

- Representative Larranaga asked why the SIC is not selecting multiple professional service contractors as the result of a single RFP. The Procurement Code allows for "yearly price agreements" with three one-year extensions.
- Bob Gish observed that the Procurement Code was designed to address price when purchasing commodities.
- It was observed that there are extraordinary delays in obtaining contract approval from the DFA and the Attorney General's Office after selection of the contractor.

State Land Commissioner Pat Lyons provided a background on the State Land Office. The federal government created the LGPF in 1910. The purpose of the fund is to finance higher education. Revenue comes from land royalties, e.g., farmer and rancher payments for the right to use federal land (see handout).

The committee recessed at 4:30 p.m.

Friday, July 9

The meeting was reconvened by Senator Carraro at 10:00 a.m.

Representative Larranaga suggested an exemption from the Procurement Code for investment organizations.

Frank Foy reviewed ERB investment policies (see handout).

- With respect to real estate investments, ERB does not directly own real estate but invests in companies that own real estate. SIC directly owns real estate.
- ERB would like to change the statute to remove all current restrictions and require them to be governed by the "prudent investor" rule.
- ERB lost approximately \$22 million on Enron.

Mr. Gish observed that PERA is 100 percent externally managed unlike SIC or ERB.

- PERA suggests that its current statutory restrictions be lifted and replaced with the "prudent investment act" (see handout).
- The PERA investment plan was reviewed (see handout).
- PERA lost approximately \$12 million on Enron.
- Retired state employees may return to state employment and not pay into the retirement fund on the first \$25,000 of income (return-to-work program).
- Approximately 1,200 state employees are retirees from New Mexico state government.

Representative Saavedra proposed a mandatory legislative workshop during the first week of the session to educate the members with respect to the trust funds and any proposed legislation.

Mr. Jacksha reviewed the SIC investment programs (see handout).

LCS staff made a presentation concerning severance tax collections and deposits to the STPF.

The task force discussed the agenda for the September meeting.

The meeting adjourned at 4:00 p.m.

